



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 5, 1998

H.R. 2493 **Forage Improvement Act of 1997**

*As ordered reported by the Senate Committee on Energy and Natural Resources
on July 29, 1998*

SUMMARY

H.R. 2493 would modify how the Bureau of Land Management (BLM), within the Department of the Interior, and the Forest Service, within the Department of Agriculture, administer livestock grazing on public lands.

H.R. 2493 would change the formula for computing grazing fees. The act also would redefine "animal unit month" (AUM) by increasing the number of sheep and goats allowed per AUM from five to seven. These changes would apply to grazing on federal land administered by BLM and the Forest Service (excluding the National Grasslands). CBO expects that these changes would increase the government's net income from grazing fees by about \$10 million over the 1999-2003 period. Because H.R. 2493 would affect direct spending, pay-as-you-go procedures would apply.

This legislation also would make several other changes to the management of grazing on public lands that would increase discretionary spending by an estimated \$10 million over the next five years, subject to appropriation of the necessary amounts.

H.R. 2493 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that enacting H.R. 2493 would increase gross income from grazing fees by about \$12 million over the 1999-2003 period. Because a portion of that income is shared with states, CBO estimates that enacting H.R. 2493 would result in a net decrease in direct spending of about \$10 million over the 1999-2003 period. In addition, discretionary

spending totaling about \$10 million over the next five years would result from this act, assuming appropriation of the estimated amounts. The estimated budgetary impact of H.R. 2493 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and the environment) and 800 (general government).

| | By Fiscal Year, in Millions of Dollars | | | | |
|---|--|------|------|------|------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| CHANGES IN DIRECT SPENDING | | | | | |
| Change in Offsetting Receipts | | | | | |
| Estimated Budget Authority | -2 | -2 | -2 | -2 | -2 |
| Estimated Outlays | -2 | -2 | -2 | -2 | -2 |
| Change in Direct Spending | | | | | |
| Estimated Budget Authority | 0 | a | a | a | a |
| Estimated Outlays | 0 | a | a | a | a |
| Net Change | | | | | |
| Estimated Budget Authority | -2 | -2 | -2 | -2 | -2 |
| Estimated Outlays | -2 | -2 | -2 | -2 | -2 |
| CHANGES IN SPENDING SUBJECT TO APPROPRIATION | | | | | |
| Estimated Authorization Level | 6 | 1 | 1 | 1 | 1 |
| Estimated Outlays | 6 | 1 | 1 | 1 | 1 |
| a. Less than \$500,000. | | | | | |

BASIS OF ESTIMATE

The act states that its provisions would become effective on the date of enactment. For purposes of this estimate, CBO assumes that H.R. 2493 would be enacted in time to implement the new fee for the 1999 grazing year, which begins March 1, 1999.

Offsetting Receipts

CBO estimates that the new formula would increase the amount of grazing fee receipts that would be collected over the next five years compared to current law. The increase in the amount charged per AUM would be partially offset by the act's revised definition of AUM. Overall, CBO estimates that offsetting receipts would increase by a little more than 2 million

annually beginning in fiscal year 1999 and by a total of about \$12 million over the 1999-2003 period.

Grazing Fees. Section 106 would base the new grazing fee on two factors: the value of beef cattle and the interest rate. Specifically, in all 16 western states, the act would set the basic grazing fee for each animal unit month at the average of the total gross value of production for beef cattle (as compiled by the Economic Research Service (ERS) of the Department of Agriculture) for the 12 years preceding the grazing fee year, multiplied by the average of the "new issue" rate for six-month Treasury bills for the 12 years preceding the grazing fee year, and divided by 12.

H.R. 2493 does not define total gross value of production but refers to data published annually by ERS in Economic Indicators of the Farm Sector: Costs of Production. (ERS has discontinued that publication but provides data on cow-calf production costs in other publications.) The total gross value of production, as defined by ERS, is equal to the price of cattle multiplied by the quantity produced (number of pounds). Therefore, the new formula would yield a grazing fee that increases or decreases over time, depending largely on changes in the price of cattle. In contrast, the current fee varies in response not only to changes in the price of cattle, but also to changes in the private lease rate for grazing land and the cost to produce beef. In addition, the current fee formula sets a minimum of \$1.35 per AUM and limits the annual change in the fee to 25 percent. Both formulas are likely to result in varying fees from year to year.

The fee for each of the last three grazing fee years (1996-1998) has been \$1.35 per AUM on most public rangelands. Using ERS's most recent data for the total gross value of production and projecting changes in cattle prices and interest rates, CBO estimates that the proposed new formula would result in a grazing fee averaging about 25 cents more per AUM over the 1999-2003 period in the western states than the grazing fee under current law.

Under current law, CBO projects grazing fee receipts of \$22 million a year over the next five years. We estimate that implementing the formula contained in H.R. 2493 would yield an average increase in offsetting receipts of almost \$3 million annually beginning in fiscal year 1999, taking into account the reduced volume of grazing that would result from the higher fee. This figure excludes the reduction in offsetting receipts attributable to the act's change in the definition of animal unit month discussed below.

Section 106 would establish a new grazing fee for foreign-owned or foreign-controlled permits or leases. The fee would be equal to the average annual grazing fee charged by the state for grazing on state lands, or the average charged on private lands within that state, whichever is higher. CBO expects that enacting this provision could increase receipts, but

because BLM does not track whether permits are foreign-owned or controlled, we cannot estimate the magnitude of any increase based on current permits.

Animal Unit Month Redefined. Section 106 also would revise the definition of animal unit month (AUM) by increasing the number of sheep and goats per AUM from five to seven. That change would effectively decrease the cost of grazing sheep and goats by almost one-third. Owners of sheep and goats could purchase fewer AUMs to support the same number of animals under the new definition. Some producers might increase the size of their sheep and goat herds in response to lower effective costs for grazing on public land. Because grazing fees are only a fraction of the total cost to raise sheep and goats, however, we expect a net drop in the number of AUMs and an associated decrease in offsetting receipts of roughly \$500,000 a year beginning in 1999.

Other Direct Spending

Current law (7 U.S.C. 1012, 16 U.S.C. 500, and 43 U.S.C. 315) requires the Forest Service and BLM to distribute a portion of the offsetting receipts from grazing on public lands to the states. Payments are made in the fiscal year following the year that grazing fees are received by the federal government, and are currently projected to total roughly \$5 million a year. CBO estimates that enacting H.R. 2493 would increase payments to states by approximately \$500,000 a year beginning in fiscal year 2000 and by about \$2 million over the 1999-2003 period.

Spending Subject to Appropriation

CBO estimates that additional discretionary spending would be about \$6 million in fiscal year 1999 and a total of about \$10 million during the 1999-2003 period, assuming appropriation of the estimated amounts. Specific provisions are discussed below.

New Rulemaking. Section 202 would direct the Secretaries of Agriculture and the Interior to coordinate the promulgation of new regulations to carry out H.R. 2493 and to publish such regulations simultaneously within 180 days after enactment of the act. Based on information from BLM and the Forest Service, CBO estimates that completing this new rulemaking and modifying existing grazing permits would cost about \$6 million in fiscal year 1999.

Range Improvements. The Federal Land Policy and Management Act of 1976 authorizes appropriations for range improvement of 50 percent of the income from grazing fees received during the prior fiscal year. If H.R. 2493 were enacted and the Congress appropriated

50 percent of grazing fee receipts for range improvements, then appropriations for range improvements would increase by about \$5 million over the 2000-2003 period.

Other Potential Changes in Discretionary Spending. Section 106 would require the Economic Research Service to continue to compile and report the total gross production value for beef cattle for the purpose of calculating the grazing fee. ERS has conducted a survey on which to base total gross value of production about every five years and has indexed the data based on changes in cattle prices for annual updates. If section 106 is interpreted to mean that ERS must conduct annual surveys, CBO estimates that each year's survey costs could be as high as \$500,000. However, because it is unclear whether surveys would have to be conducted more often, we have not included any additional discretionary spending for such surveys in this estimate.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. As shown in the following table, CBO estimates that enacting H.R. 2493 would decrease direct spending by about \$2 million in fiscal year 1999 and by about \$20 million over the 1999-2008 period. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, budget year, and the subsequent four years are counted.

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---------------------|--|------|------|------|------|------|------|------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Changes in outlays | 0 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 |
| Changes in receipts | | | | | | | | | | | |
| | | | | | | | | | | | |

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2493 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. The act would increase payments to states by almost \$500,000 per year beginning in fiscal year 2000, because they receive a portion of receipts from grazing on public lands. For the 1999-2003 period, payments to states would increase by a total of almost \$2 million compared to payments under current law.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The act would impose no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On October 1, 1997, CBO prepared a cost estimate for H.R. 2493, as ordered reported by the House Committee on Agriculture on September 24, 1997. On October 15, 1997, CBO prepared a cost estimate for H.R. 2493, as ordered reported by the House Committee on Resources on October 8, 1997. The version approved by the Senate Committee on Energy and Natural Resources includes a number of changes to both previous versions of H.R. 2493 and this cost estimate differs accordingly. Furthermore, both previous cost estimates assumed that H.R. 2493 would be enacted before the start of the 1998 grazing year, which began March 1, 1998. In contrast, this estimate assumes that H.R. 2493 will be enacted before the start of the 1999 grazing year. This estimate also reflects more recent baseline assumptions and data from ERS.

ESTIMATE PREPARED BY:

Federal Costs: Victoria V. Heid

Impact on State, Local, and Tribal Governments: Marjorie Miller

ESTIMATE APPROVED BY:

Robert A. Sunshine

Deputy Assistant Director for Budget Analysis